DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
INSTALLATIONS AND ENVIRONMENT
110 ARMY PENTAGON
WASHINGTON DC 20310-0110

March 13, 2003

The Honorable Duncan Hunter
Chairman
House Armed Services Committee
United States House of Representatives
Washington, D.C. 20515-6026

Dear Mr. Chairman:

Under Title 10 USC, Section 2688, Army is required to notify the appropriate committees of the Congress before conveying a utility system to a municipal, private, regional, district, cooperative utility company or other entity.

The economic analysis summary supporting privatization of the Fort Rucker, Alabama, Electrical Distribution System is enclosed. Privatization is expected to result in an estimated equivalent uniform annual cost avoidance of $168,000 when compared to the cost of continued Government ownership and operation.

This is to inform you that the Army intends to transfer the Electrical Distribution System and award a fifty-year contract for utility services at Fort Rucker, Alabama, to the Alabama Power Company 21 days after the receipt of this letter.

Sincerely,

William A. Armbruster
Deputy Assistant Secretary of the Army
Privatization & Partnerships

Enclosure

cc: The Honorable Ike Skelton
Ranking Member

Department of the Army
Fort Rucker, Alabama
Privatization of the
Electrical Distribution System

Economic Analysis

February 2003

Executive Summary: Economic analysis demonstrates that transfer of the Fort Rucker Electrical Distribution System to the Alabama Power Company (APC) will reduce the Government's cost over a 50-year period by an estimated $2.8 million (Net Present Value). The estimated Equivalent Uniform Annual Cost Avoidance is $168,000 or 6.5 percent.

Overview of the Utility System: The Electrical Distribution System at Fort Rucker consists of the Main Post area as well as Cairns Army Airfield, Shell Army Heliport, and 14 stagefields. Fort Rucker owns and operates the Electrical Distribution System serving the installation. The Main Post Electrical Distribution System consists of:

- One 115 kV transmission substation
- Three 44 kV distribution systems
- Approximately 5.7 circuit miles of 44 kV overhead transmission line
- Approximately 57.1 circuit miles of 12.5Kv primary distribution line
- Approximately 3.6 circuit miles of 12.5 kV underground primary distribution line
- Approximately 75 miles of other conductors described below

The Electrical Distribution System at Shell Army Heliport consists of approximately 9,000 feet of overhead and 3,100 feet of underground conductors. The overhead lines were replaced in 2001. Fort Rucker currently purchases wholesale electrical power for Main Post and several nearby sites from APC.

Description of the government's "Should Cost" estimate (SCE): The government's "should cost" is the total cost of service to own, operate, maintain and re-capitalize the electrical distribution system. It is based on the number of employees, direct and indirect labor costs, contracting support, and the equipment and materials used to perform work on the system.

Recommended Fair Market Value: 10 U.S.C. Section 2688 requires the Army to receive fair market value (FMV) for the utility system in return for conveying the system to the contractor. The Government determined FMV is $ 22.8M.

Procurement History: The Defense Energy Support Center (DESC) issued Solicitation in September 2001. APC, Duke Engineering & Services (DE&S) and Southeast Utility Services (SUS) submitted initial proposals in April 2002. APC and SUS submitted their first revised proposal on 12 September 2002, the second revision on 5 November 2002, and a third revision in November 2002. The Source Selection Board selected APC as the best value proposer, Feb 2003.

Life Cycle Cost Analysis (LCCA): Based on the information provided by APC, the privatization alternative was evaluated in comparison with the Status Quo.

Alternatives	Period (Years)	Net Present Value ($)	Equivalent Uniform Annual Cost Avoidance	Equivalent Uniform Annual Cost Avoidance	
				$	%
Government Owned	50	$ 42.961M	$ 2.576 M	-	-
Contractor Ownership	50	$ 40,161M	$ 2.408M	$ 0.168 M	6.5 %

As summarized above, the privatization of the Fort Rucker Electrical Distribution System under the APC proposal will reduce the Government's cost of electric utility service over a 50-year period by an estimated $2.8 million on a net present value basis, or approximately 6.5 percent, as compared to the Government's Status Quo (Should Cost) alternative. Privatization is expected to result in an estimated annual cost avoidance of $ 168,000 per year.

Conclusions and Recommendations: The privatization of the Fort Rucker Electrical Distribution System under the APC proposal is economically viable. Additionally, the following findings are provided:

1. The privatization of the Electrical Distribution System assures future upgrades and additions to this system.

2. The utility privatization action will be a cost-effective means to provide safe and reliable electrical utility service to the Installation.

3. Based upon the economic analysis, the privatization of the Fort Rucker Electrical Distribution System will result in an overall lower cost of utility service than continued government ownership.